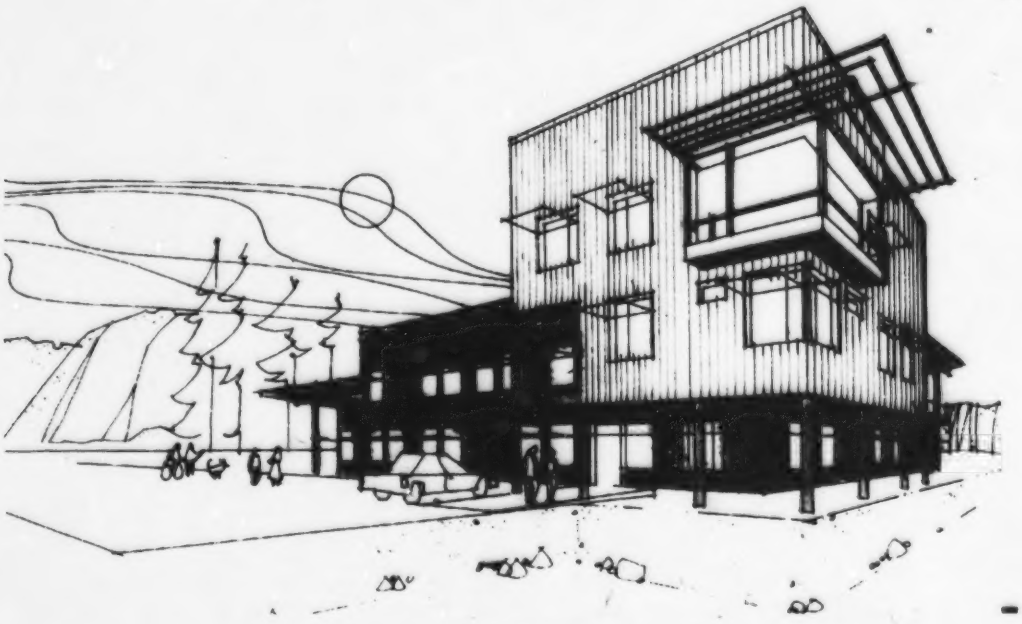
Yukon Development Corporation

Yukon Energy Corporation



The new award-winning Yukon Energy Building

1998 ANNUAL REPORT

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On the cover: The new Yukon Energy Building won the 1999 National Energy Efficiency Award for Commercial/Industrial Building Projects (illustration courtesy Maurer Kobayashi Architects Ltd.).

June 30, 1999

The Honourable Trevor Harding
Minister Responsible for the Yukon Development Corporation
Government of Yukon
Box 2703 (A-2), Whitehorse, Yukon Y1A 2C6

Dear Minister,

As the 'Year in Review' section of this Annual report indicates, 1998 was a challenging and productive year for the Yukon Development Corporation and its subsidiary the Yukon Energy Corporation.

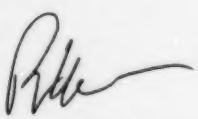
For the Yukon Development Corporation, the year was capped by the announcement of four major new initiatives — a Green Power initiative, a Rate Stabilization Fund with winter and summer benefits, a commercial wind power project, and an Energy Efficiency initiative — all government-funded activities for delivery by the corporation.

Yukon Energy also completed its first year of direct management in 1998, a year marked by two major events: the loss of the Faro mine, the industrial customer that has historically accounted for about 40 per cent of the company's revenues; and the reconstruction and restoration of the Whitehorse Rapids hydro plant and system control centre following the devastating fire of October 30, 1997.

The corporation has embarked on a long-term infrastructure planning initiative as well as a restructuring exercise to address strategic priorities, such as business development and energy supply proposals to help the utility and rate payers 'break out of the box' created by the up and down fortunes of the Faro mine.

At the end of the year, we look back on 1998 as a challenging time but we look forward to 1999 with optimism, ready to deliver first class service to energy customers in the Yukon.

Respectfully submitted,



Ray Wells, Chair
Yukon Development Corporation

CORPORATE PROFILE

The **Yukon Development Corporation** is a Yukon Crown Corporation created in 1986 by the *Yukon Development Corporation Act*. It is governed by a Board of Directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the Yukon Development Corporation does the following:

- develops and promotes the development of Yukon resources on an economic and efficient basis;
- promotes employment and business opportunities for Yukon residents;
- assures a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development; and
- carries out development policy directives issued to it by the Commissioner in Executive Council.

The corporation currently maintains only one investment made within the full scope of its statutory mandate.

In 1993, the corporation's role was restricted, by government Order-in-Council direction, to energy-related activities designed to promote the economic development of the Yukon. In particular, the corporation does the following:

- assures a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development;
- alleviates the effects of any energy shortage that may occur in the Yukon; and
- promotes the establishment, development and operation within the Yukon of industries or undertakings that are, by their nature, energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

The corporation functions primarily as a holding and investment company as the sole shareholder in the subsidiary, Yukon Energy Corporation.

In the final quarter of 1998, Yukon Development Corporation's programming activity in the energy sector was expanded. On behalf of the Yukon government, the corporation became responsible for developing and delivering four long-term energy policy initiatives relating to rate stabilization, green power, wind research and development, and energy efficiency.

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THE YEAR IN REVIEW

HIGHLIGHTS

Infrastructure planning and investment

In keeping with its statutory mandate, the Corporation contributed to the preparation of feasibility and technical studies to determine the business case for the Mayo-to-Dawson transmission line project. The Yukon Development Corporation also reinvested its dividend in long-term financing for the Yukon Energy Corporation consistent with the requirement to maintain a 60:40 debt to equity relationship with its subsidiary.

Rural electrification program

In April a completely revamped rural electrification program was launched jointly with the Yukon Department of Community and Transportation Services and Yukon Energy. Among the many improvements designed to improve rural access to electricity services are provisions for renewable energy systems, increased eligibility, new planning and participatory approval processes.

Governance

Reporting relationships between the chair and the minister responsible for YDC were clarified and strengthened. The chair and president and CEO also attended the Yukon Legislative Assembly to account directly for the activities of the Corporation.

First Nations relations

The Corporation developed and began to implement an action plan to build positive relations with Yukon First Nations.

New energy-related initiatives

As part of the made-in-the-Yukon energy policy, $16 million was allocated by the Yukon government to the Corporation to spearhead and carry out four major long-term initiatives: the rate stabilization initiative, the green power initiative, the energy efficiency initiative, and the wind generation research and development project.

SHAREHOLDER DIRECTION

The Government of the Yukon issued directives to the Board of Directors that had a direct effect on the business affairs of the Yukon Development Corporation in 1998. The following Orders-in-Council were given pursuant to paragraph 4 (d) of the *Yukon Development Corporation Act*:

- Order-in-Council 1998/204 dated November 17, 1998

  To amend eligibility for electrical conservation initiatives established pursuant to the Energy Conservation Fund by lowering the residential consumption threshold and including municipalities.

THE YEAR IN REVIEW

- Order-in-Council 1998/205 dated November 17, 1998

  To establish the Rate Stabilization Fund and implement winter seasonal benefits for non-government residential customers of the electrical utilities effective December 1, 1998.

  In December, the Yukon Legislative Assembly approved 1998/99 supplementary estimates of $16 million for four energy-related initiatives to be carried out by the Yukon Development Corporation.

  The Government of the Yukon appointed directors to the Board of the Yukon Development Corporation during 1998 by Orders-in-Council pursuant to section 7(2) of the *Yukon Development Corporation Act.*

- Order-in-Council 1998/157 appoints Aileen Horler as member of the Board of Directors for a term commencing August 26, 1998 and ending August 25, 2001.

- Order-in-Council 1998/158 appoints Pat Irvin as member of the Board of Directors for a term commencing November 21, 1998 and ending November 20, 2001.

- Order-in-Council 1998/184 appoints Fred Blanchard as member of the Board of Directors for a term commencing October 21, 1998 and ending December 31, 1998.

- Order-in-Council 1998/232 appoints Fred Blanchard as member of the Board of Directors for a three-year term commencing January 1, 1999 and ending December 31, 2002.

RATE STABILIZATION FUND

The Rate Stabilization Fund was created in November by a Yukon government Order-in-Council pursuant to the *Yukon Development Corporation Act.* As part of a comprehensive, long-term rate stabilization initiative, the Fund is intended to support affordable and stable electrical bills for Yukon consumers. By supplementary appropriation, the government allocated $10 million to the Yukon Development Corporation for implementation of bill stabilization through to March 31, 2002.

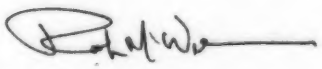
Bill stabilization was introduced for all residential, non-government rate payers effective December 1, 1998. A total of $80,083.51 was spent to provide relief to 11,780 residential electrical consumers throughout the territory.

The consolidated financial statements and all other financial information relating to the Corporation contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Corporation operates. The preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an external auditor. The external auditor's responsibility is to express his opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* (Yukon) as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditors have full and free access to the Audit and Finance Committee, with and without the presence of management.



Rob McWilliam
President and Chief Executive Officer
June 30, 1999

The Honourable Trevor Harding, MLA
Minister of Economic Development
Responsible for the Yukon Development Corporation

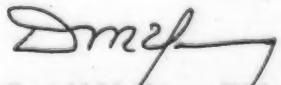
I have audited the consolidated balance sheet of Yukon Development Corporation as at December 31, 1998 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In 1998, the Yukon Utilities Board approved the recovery of a 1997 revenue shortfall of $2,139,000 through interim riders effective August 1, 1998, as described in note 17. Management has accounted for this decision by restating the 1997 financial statements. In my opinion, under generally accepted accounting principles, the impact of the Board's decision should be accounted for in the 1998 financial statements. If this had been accounted for in 1998, the 1997 retained earnings and accounts receivable would be decreased by $2,139,000 and the 1998 net income and accounts receivable would increase by $2,139,000.

In my opinion, except for effects of the failure to properly record the impact of the Board's decision as described in the previous paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of accounts have been kept by the Corporation and by its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Yukon Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the Corporation.



Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa
June 30, 1999

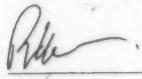
Consolidated balance sheet

As at December 31, 1998 (in thousands of dollars)

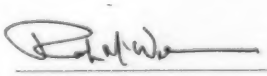
	1998	1997 (restated)
Assets		
Current assets:		
Cash and short-term investments (note 3)	$ 5,818	$ 8,870
Accounts receivable (note 4)	9,506	2,622
Inventories	705	783
Prepaid expenses	281	248
Current portion of investment (note 5)	175	154
	16,485	12,677
Long-term receivables		
Other long-term receivables (note 6)	5,952	4,741
Mortgages receivable	63	—
	6,015	4,741
Diesel contingency fund (note 7)	2,236	2,398
Capital assets (note 8)	112,015	111,186
Deferred charges (note 9)	3,629	4,234
Investments (note 5)	4,759	4,934
	$ 145,139	$ 140,170
Liabilities		
Current Liabilities:		
Accounts payable	1,766	2,766
Current portion of long-term debt (note 10)	763	853
Interest payable	16	17
	2,545	3,636
Deferred revenue (note 11)	222	296
Reserve for uninsured losses (note 12)	(621)	(58)
Reserve for future removal and site restoration costs (note 13)	3,532	2,963
Diesel contingency fund (note 7)	2,236	2,398
Long-term debt (note 10)	46,009	46,731
Equity:		
Contributed capital	41,501	41,501
Retained earnings	49,715	42,703
	91,216	84,204
	$ 145,139	$ 140,170

The accompanying notes are an integral part of the financial statements, including Commitments (note 23).

Approved by the Board:



Chair



Director

Consolidated statement of income and retained earnings
For the year ended December 31, 1998 (in thousands of dollars)

	1998	1997
		(restated)
Revenue:		
Sales of power	$ 24,534	$ 27,656
Water level reimbursement from parent	74	—
Other (note 14)	(15)	298
	24,593	27,954
Operating expenses:		
Administration (note 15)	4,665	4,365
Amortization of capital assets	4,156	4,083
Amortization of deferred charges	660	1,576
Management fee (note 16)	—	807
Operations and maintenance	5,943	13,976
	15,424	24,807
Income from operations	9,169	3,147
Other expenses (income):		
Loss (gain) on investment	—	31
Provision for uninsured losses	50	50
Finance charges, net (note 17)	1,480	2,798
Transition costs (note 14)	70	880
Other expenses (note 18)	155	—
	1,755	3,759
Net income	7,414	(612)
Retained earnings, beginning of year, as previously reported	42,703	42,686
Adjustment of prior year's income (note 19)	—	2,139
Retained earnings, beginning of year, as restated	42,703	44,825
Power rate relief and subsidy payments	(402)	(1,510)
Retained earnings, end of year	$ 49,715	$ 42,703

The accompanying notes are an integral part of the financial statements.

Consolidated statement of changes in financial position
For the year ended December 31, 1998 (in thousands of dollars)

	1998	1997 (restated)
Cash was provided by (used for):		
Operations		
Net income	$ 7,414	$ (612)
Add (deduct): Items not affecting cash		
Amortization	4,816	5,659
Loss on investments	—	31
	12,230	5,078
Change in non-cash components of working capital	(7,838)	2,812
	4,392	7,890
Investing activities:		
Additions to capital assets	(5,487)	(1,920)
Proceeds on disposal of capital assets	—	265
Contributions for plant extension	1,070	171
Decrease in deferred charges	(55)	(1,222)
Increase in reserve for uninsured losses	50	50
Principal payments received on investments	154	328
	(4,268)	(2,328)
Financing activities:		
Repayments of long-term debt	(813)	(1,573)
Decrease (increase) in long-term receivables	(1,887)	(3,614)
Increase (decrease) in long-term liabilities	(74)	296
	(2,774)	(4,891)
Other activities:		
Power rate relief and subsidy payments	(402)	(1,510)
	(402)	(1,510)
Increase (decrease) in cash and short-term investments	(3,052)	(839)
Cash and short-term investments at beginning of year	8,870	9,709
Cash and short-term investments at end of year	$ 5,818	$ 8,870

The accompanying notes are an integral part of the financial statements.

1. Authority, objectives and operations

The Corporation was originally established under the *Yukon Development Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict the Corporation's new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiary, Yukon Energy Corporation, was incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board.

Pursuant to Order-in-Council 1990/76, Yukon Energy Corporation is exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation

The consolidated financial statements of the Corporation have been prepared by management and conform to accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Yukon Energy Corporation. All significant inter-company transactions and balances have been eliminated on consolidation. A description of the significant accounting policies follows.

Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board pursuant to the *Public Utilities Act* (Yukon).

Water Regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating dams for hydro generation. The licenses will also indicate terms and conditions for the operation of dams. The costs incurred in securing a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate Regulation

The regulatory process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two years. The Yukon

Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and Orders-In-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB goes through a two-stage decision process. The first stage is to approve the total costs that the utility will incur by making electricity available to its customers over the immediate future. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs.

- The costs to the utility to run its operations and maintain its equipment (personnel and materials costs);
- The cost associated with the amortization of all capital equipment;
- Return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

Having approved the total revenue that the utilities are allowed to collect over the immediate future, the next stage is for the YUB to approve how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost of service study which allocates utility costs to the various customer classes on the basis of what it costs the utility to provide service to each customer class. The determination of rates is also affected by Orders-In-Council, which give specific direction to the Board.

Normally, Yukon Energy Corporation would apply for rates in advance of the applicable years. A hearing would take place and rates would be approved as final as a result of this hearing. Interim hearings and interim rates have been used to deal with unforeseen circumstances, such as the loss of a major customer.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	13 to 14 years
Office and general equipment	5 to 15 years

Yukon Energy Corporation includes in the cost of additions capital development studies and an allowance for funds used during construction at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions.

Inventories

Inventories are recorded at the lower of cost and replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand side management (DSM) expenditures incurred related to administration expenses and information programs are expensed as incurred and costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are deferred and amortized to earnings on a straight-line basis over five years commencing with the first rate application period following the decision to abandon the project. Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing licence plus the expected term of the renewed licence.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates. Other deferred charges, which have arisen from decisions of the Yukon Utilities Board, are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Yukon Energy Corporation is authorized by Order In Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel in accordance with procedures determined by the Yukon Utilities Board. Significant fluctuations in diesel fuel expense due to unusual circumstances or events, which result in a diesel fuel price adjustment, are deferred and recovered or refunded over a specific future period through revised rates charged to customers.

Investments

The Corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. Appropriations to, or withdrawals from, the reserves are recorded as a charge or credit to earnings.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Power rate relief and subsidy payments

Power rate relief and subsidy payments are paid as directed by the Yukon government and charged to retained earnings as required by regulation.

Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, other long-term receivables, the reserve for uninsured losses and the reserve for future removal and site restoration costs. Actual results could differ from these estimates.

Pension plan

Yukon Energy Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees.

3. Cash and short term investments

	1998	1997
Cash and short term investments YDC	$ 9,323	$ 8,680
Cash (overdraft) YEC	(1,907)	188
Operating line of credit	(1,600)	—
Short-term investments	2	2
	$ 5,818	$ 8,870

Yukon Energy Corporation has, if needed, an operating demand overdraft facility with its banker that allows the Corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

4. Accounts receivable

	1998	1997
Fire insurance claim (note 8)	$ 2,562	$ 601
Rate increase entitlement	2,483	812
Wholesales	1,712	—
Retail energy sales	1,473	574
Other	1,276	635
	$ 9,506	$ 2,622

The 1997 accounts receivable balance has increased by $812,000 due to a prior period adjustment as a result of Board Order 1998-5. The Board recognized that Yukon Energy Corporation had a 1997 revenue shortfall of $812,000 required to achieve the approved return of 9.45%. The Board ordered that the shortfall be collected from Yukon Energy Corporation's and YECL's customers through a 5.8% rider effective August 1, 1999 (see note 21).

5. Investments

The Corporation's investments are summarized as follows:

	1998	1997
Direct financing lease	$ 4,934	$ 5,088
Less current portion	175	154
	$ 4,759	$ 4,934

In 1990, the Corporation acquired the building known as Old Yukon College form the Yukon government for a nominal fee. The building was renovated and is being leased back to the government for a period of 20 years. At the end of the lease term (in 2011) the government may purchase the building from the Corporation for a nominal fee.

6. Long term receivables

	1998	1997
Anvil Range Mine bad debt	$ 3,177	$ 3,414
Anvil Range Mine cost of service shortfall	2,775	1,327
	$ 5,952	$ 4,741

Yukon Energy Corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January, 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. Yukon Energy Corporation's management expects to recover the receivable through future customer rates. Yukon Energy Corporation requested, in the April 22, 1998 rate application, that the receivable balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5.

Yukon Energy Corporation has appealed this decision to the Court of Appeal. Until the Court of Appeal decides whether or not Yukon Energy Corporation is entitled to collect the receivable from its customers, the amount has been recorded as a long-term receivable. Based on past experience, it is management's position that the Court of Appeal will allow Yukon Energy Corporation to collect this amount. The date for the appeal is set for October 1999. The Anvil Range Mine bad debt decreased by $237,000 as interest that was previously recorded as a part of the bad debt was not requested by Yukon Energy Corporation to be collected in the 1997 and 1998 Rate Application filed with the Yukon Utilities Board on April 22, 1998.

There is a measurement of uncertainty regarding the collection of this receivable since the collection through future customer rates requires the approval of the Court of Appeal. The amount that may subsequently be approved for collection might vary from $0 to $3,177,182.

In accordance with Board Order 1998-5, Yukon Energy Corporation has recorded the cost of service shortfalls as a long-term receivable of $1,326,700 for 1997 and $3,298,300 for 1998 related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of Yukon Energy Corporation. The Board also ordered that the amount to be included in Yukon Energy Corporation's rate base be reduced by $925,000 per year commencing in 1998. The long-term portion of $2,775,000 represents three years at $925,000 per year.

7. Diesel contingency fund

The Diesel Contingency Fund was established by the Yukon Utilities Board in the 1996/1997 General Rate Application decision. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability. The Fund's assets are from the following sources:

- the prior low water reserve of $500,000;
- $1,496,000 collected from the Curragh Resources Inc. receivership pursuant to a judgement granted by the Yukon Court of Appeal; and
- revenue, net of direct expenses, received from the Anvil Range Mining Corporation for their Faro mine site in the amount of $2,045,000, which had been deferred based on a decision by the Yukon Utilities Board.

	1998	1997
Opening Balance	$ 2,398	$ 2,828
Interest	159	73
Hydro availability buildup (drawdown)	904	(155)
Forest fire impact buildup (drawdown)	58	—
Yukon Utilities Board Orders 1998-5 and 1997-7	(1,283)	(348)
Closing Balance	$ 2,236	$ 2,398

Yukon Energy Corporation burned additional diesel during the month of July 1998, due to a forest fire. The Diesel Contingency Fund paid for the extra cost, which was subsequently charged to the contingency reserve for uninsured losses.

8. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	$ 112,892	$ 24,872	$ 88,020	$ 89,517
Transmission	18,122	4,605	13,517	13,851
Distribution	8,470	2,355	6,115	6,150
Buildings and other equipment	5,762	1,543	4,219	3,361
Transportation	646	21	625	—
Land	103	—	103	97
Construction-in-progress	2,355	—	2,355	109
	148,350	33,396	114,954	113,085
Less: Contributions for plant extensions	3,292	353	2,939	1,899
	$ 145,058	$ 33,043	$ 112,015	$ 111,186

Construction-in-progress includes an estimate of $1,691,982 for the cost of betterments due to the reconstruction of the Whitehorse Rapids Generation Plant and Head Office building.

Capital assets located at Whitehorse Rapids Generating Facility were damaged or destroyed by a fire on October 30, 1997. The estimated net book value of the assets damaged or destroyed by the fire are:

Buildings	$ 750
Hydro-electric plant	700
SCADA automated control systems	500
Computers/software	50
	$ 2,000

Yukon Energy Corporation intends to use the insurance proceeds to purchase the same or similar assets to those that were damaged or destroyed by the fire and expects that the insurance proceeds will be sufficient to fully cover the costs of replacing these assets. The eventual gain to be realized on insurance proceeds received over the net book value of the assets destroyed by the fire will be recorded at the end of the project in 1999, at which time Yukon Energy Corporation intends to seek approval from the Yukon Utilities Board to defer the gain.

The following table summarizes fire related expenditures to date which will be included in the total added to rate base as betterments in 1999.

		1998 Actual
Total expenditures		$ 11,103
Less:	Insurance receivables (note 4)	2,562
	Insurance proceeds	5,850
	Contributions from Yukon Development Corporation	1,000
Betterments		$ 1,691

9. Deferred charges

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
Planning and study costs	$ 4,514	$ 1,083	$ 3,431	$ 3,217
Generating equipment overhauls	887	595	292	389
Downsizing	166	140	26	51
Regulatory expenses	1,578	1,577	1	98
Deferred fuel price adjustment	(121)	—	(121)	479
	$ 7,024	$ 3,395	$ 3,629	$ 4,234

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

10. Long term debt

The Corporation's long-term debt is summarized as follows:

	1998	1997
Government of Canada		
$40,000 flexible term note bearing interest at 7% payable in annual instalments of $1,000 with the balance due January 1, 2028	$ 30,016	$ 30,414
Great West Life		
$5,750 mortgage bearing interest at 11.5%, payable in blended monthly instalments of $60 with the final payment due July, 2011	4,934	5,092
Toronto Dominion Bank of Canada		
$12,400 term note bearing interest at 7.94% payable in blended monthly instalments of $102 with the balance of $67 due October 31, 2016. The note is guaranteed by the Yukon government	11,822	12,078
	46,772	47,584
Less: Current portion	763	853
	$ 46,009	$ 46,731

Government of Canada notes

The proceeds of the Government of Canada term and flexible term notes were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission (NCPC). The notes are secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Mortgage payable

The mortgage is secured by the land and buildings described in note 5.

The aggregate maturities of the Corporation's long-term debt are estimated as follows:

1999	$ 763
2000	841
2001	991
2002	1,083
2003	1,182
Thereafter	41,911
	$ 46,771

Fair value

Fair value of $49,832 (1997- $53,178) for the above debt was estimated using discounted cash-flow analysis based on an estimate of Yukon Energy Corporation's current borrowing rate for similar borrowing arrangements.

11. Deferred revenue

The maintenance reserve was set up to offset the future cost of maintenance related to compensation received by Yukon Energy Corporation under the Aishihik Order in Council 1997/12 passed by the Yukon government. The reserve was established in 1997, and is being taken into income on a straight-line basis over five years.

12. Reserve for uninsured losses

	1998	1997
Opening Balance	$ (58)	$ 92
Buildup	50	50
Asset replacement	(33)	—
Line Failures	(35)	—
Forest Fires	(178)	—
Whitehorse Rapids Generation Plant insurance deductible	—	(200)
Whitehorse Rapids Generation interruption	(367)	—
Closing balance	$ (621)	$ (58)

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to build up the reserve.

13. Reserve for future removal and site restoration costs

	1998	1997
Hydro-electric and diesel plants	$ 2,493	$ 2,092
Transmission	988	829
Distribution	531	445
Buildings and other equipment	(480)	(403)
	$ 3,532	$ 2,963

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

14. Other revenue

Interest that was previously recorded as revenue on the Anvil Range bad debt in 1997 has been reversed in 1998 as it was not requested by Yukon Energy Corporation to be collected in the 1997 and 1998 Rate Application filed with the Yukon Utilities Board on April 22, 1998 (see note 6).

15. Energy Conservation Grant

The Yukon territorial government passed OIC 1997/91, which instructed Yukon Development Corporation to provide $ 500,000 to create energy conservation funds to residential and commercial customers.

Yukon Development Corporation provided a $ 500,000 grant to Yukon Housing Corporation in 1997 to implement the programs. For the purposes of these financial statements, the grant has been reclassified as administration under the operating expenses section of the income statement.

16. Direct Management

Commencing January 1, 1998 Yukon Energy Corporation provided direct management of its assets through its own corporate employees. Prior to 1998 Yukon Energy Corporation had an agreement with Canadian Utilities Limited and The Yukon Electrical Company Limited to manage Yukon Energy Corporation's assets for an annual fee.

17. Finance charges, net

	1998	1997
Interest on long-term debt	$ 1,284	$ 3,740
Other interest	150	104
Interest income	82	(387)
Finance income	—	(648)
Allowance for funds used during construction	(36)	(11)
	$ 1,480	$ 2,798

18. Other expenses

In 1998, the Corporation spent $152,600 on consulting fees related to feasibility studies and $2,800 on research and development costs.

19. Prior period adjustments

The 1997 financial statements have been restated to record the impact of Yukon Utilities Board Order 1998-5. The restatement increased accounts receivable and retained earnings by $2,139,000. Details of Yukon Utilities Board Order 1998-5 are provided in note 21.

20. Related party transactions

Entity	Relationship	Transaction/Balance	Recorded as	1998	1997
The Yukon Electrical Company Limited	Manager	Management fees	Management fee	$ —	$ 807
		Power sales	Sale of power	15,232	15,432
		Accounts payable	Accounts payable	—	1,144
		Accounts receivable	Accounts receivable	1,712	—
Yukon Energy Corporation	Subsidiary	Interest payments	Finance charges	2,635	2,556
		Receivable for costs	Due from YDC	147	817
		Transition cost payments	Other income	70	880
		Transition capital payment	Contributions	1,000	—
		Aishihik water supply payment	Water level reimbursement from parent	—	4,329

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These balances are payable on demand and have arisen from the sales of products and services referred to above.

21. Rate applications

On April 22, 1998 Yukon Energy Corporation filed a revised 1997 and 1998 Rate Application requesting a reduction in Yukon Energy Corporation's rate of return on equity in 1997, 1998 and 1999, the collection of the Anvil Range Mine receivable and the cost of service shortfalls in 1997 and 1998 caused by the shutdown of the mine. Yukon Energy Corporation also requested Board orders to finalize 1997 Rates and approve Interim 1998 Rates.

On July 30, 1998 Yukon Energy Corporation received the Yukon Utilities Board Order 1998-5 with respect to this application. The Board ordered that the rate of return on equity be reduced from 10.75% to 9.45% for 1997 and 9.138% for 1998. The Board disallowed the recovery of the Anvil Range Mine receivable of $3,177,200 and stated that the Board "was of the opinion" that Yukon Energy Corporation should absorb the debt. This decision is being appealed through the Courts. The Board ordered that Yukon Energy Corporation's rates for 1997 are confirmed as final.

The Board approved the recovery of 1997 revenue shortfall of $812,000 through a 5.8% rider, effective August 1, 1998 until fully collected. The Board also acknowledged additional revenue of $1,326,700 for 1997 and $4,777,400 for 1998. The Board approved recovery of these shortfalls, excluding amounts related to the disallowed Anvil Range Mine receivable, through an interim refundable rider of 9.48% effective for billings issued on or after August 1, 1998. The rider was adjusted to 15.28% after the 5.8% rider ended for the 1997 $812,000 shortfall, and such rider is to be subject to further adjustment as directed by the Board in future proceedings. In subsequent Board Order 1998-6 the Board approved an extension of the implementation date for the riders from August 1, 1998 to September 1, 1998.

22. Pension costs

The defined benefit pension applies to one employee who was hired in the month of December, 1997. As at January 1, 1998, 38 additional employees have transferred directly from The Yukon Electrical Company Limited, in connection with commencement of direct management, and joined the plan.

Employees who transfer to Yukon Energy Corporation and join the plan are entitled to transfer prior years of service. As part of the arrangement, The Yukon Electrical Company Limited is to transfer to Yukon Energy Corporation, the appropriate value of each employee's pension entitlements. The actual pension funds will be transferred once the actuarial calculations are finalized and approved by Yukon Energy Corporation's actuary. Corporation contributions made in the period since have been based on actuarial estimates, intended to cover all current service obligations.

23. Commitments

Yukon Energy Corporation is in contract negotiations for the purchase and implementation of a new financial information system at an estimated cost of $400,000.

24. Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in error when information using year 2000 dates is processed. Similar problems may also arise as some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to a significant system failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

25. Environmental liabilities

The Corporation is not aware of any liabilities for restoration of the environment on its land, although the potential does exist. In management's opinion, there is low probability that a significant liability could result in the future.

26. Fire insurance claim

The Corporation is pursuing an insurance claim for business interruption insurance relating to lost generation caused by the fire of October 30, 1997 at the Whitehorse Rapids Generation Plant.

27. Comparative figures

Certain 1997 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

28. Non-consolidated financial information

The nature and size of operations of the Corporation and its subsidiary, Yukon Energy Corporation, differ substantially. Financial statements of Yukon Energy Corporation for the year ended December 31, 1998 have been previously issued. Fair presentation is enhanced by disclosing certain non-consolidated financial information of the Corporation.

Non-Consolidated Balance Sheet

As at December 31, 1998 (in thousands of dollars)

	1998	1997
Assets		
Current assets		
Cash and short-term investments	$ 9,323	$ 8,681
Accounts receivable	12	55
Due from Yukon Energy Corporation	—	—
Current portion of investment	175	154
	9,510	8,890
Investments		
Equity investments	39,000	39,000
Loans and advances	31,946	27,730
Direct financing lease	4,759	4,934
Capital assets	1,000	—
	$ 86,215	$ $80,554
Liabilities		
Current liabilities		
Accounts payable	94	591
Interest payable	16	17
Due to Yukon Energy Corporation	147	604
Current portion of long-term debt	178	159
	435	1,371
Long-term debt	4,755	4,933
Equity		
Contributed capital	41,501	41,501
Retained earnings	39,524	32,749
	81,025	74,250
	$ 86,215	$ 80,554

Non-consolidated statement of income and retained earnings
For the year ended December 31, 1998 (in thousands of dollars)

	1998	1997
Revenue		
Interest income	$ 2,635	$ 2,556
Dividend income	4,216	1,110
	6,851	3,666
Operating expenses		
Administration	378	235
Interest	(526)	(404)
Loss on investments	—	31
Amortization	—	3
Water level reimbursement	—	4,329
Transition costs	70	880
Energy Conservation Grant	—	500
Research and development	3	—
Strategic infrastructure planning	152	—
	76	5,574
Net income	6,775	(1,908)
Retained earnings, beginning of year	32,749	34,657
Retained earnings, end of year	39,524	32,749

FINANCIAL SUMMARY

	1998	1997	1996	1995	1994
Earnings ($000)		(restated)			
Revenues					
Electric sales	24,534	29,795	33,950	22,175	21,755
Other	59	298	65	83	252
Total revenues	24,593	30,093	34,015	22,258	22,007
Operating expenses					
Administration	4,665	3,865	4,037	3,144	3,316
Amortization	4,816	5,659	5,224	4,764	4,814
Management fee	—	807	793	789	780
Operations and maintenance	5,943	13,976	13,940	5,060	4,335
Total operating expenses	15,424	24,307	23,994	13,757	13,245
Operating income	**9,169**	**5,786**	**10,021**	**8,501**	**8,762**
Finance charges	1,480	2,798	2,739	1,128	1,448
Contingency reserves	50	50	50	32	32
Energy Conservation Grant	—	500	—	—	—
Loss (gain) on investments	—	31	—	318	470
Write-off of disallowed costs	—	—	—	—	226
Transition costs	70	880	—	—	—
Other expenses	155	—	—	—	—
Net earnings (loss)	7,414	1,527	7,232	7,023	6,586
Cash flows ($000)					
Operations	4,442	7,940	8,088	15,452	11,486
Capital expenditures	(5,542)	(2,877)	(6,392)	(2,911)	(3,156)
Investing	1,224	499	693	2,371	901
Financing	(2,774)	(4,891)	640	(1,615)	(956)
Other	(402)	(1,510)	(1,774)	(3,113)	(4,169)
Net inflow (outflow)	(3,052)	(839)	1,255	10,184	4,106
Balance Sheet ($000)					
Capital assets					
Gross	145,058	140,642	139,716	135,421	133,497
Net	108,483	108,223	110,856	110,146	111,898
Investments	4,759	4,934	5,416	5,549	8,297
Total assets	141,607	137,207	138,885	136,087	128,896
Capitalization					
Long-term debt	46,772	47,584	49,157	50,845	52,460
Equity	91,216	84,204	84,185	78,729	73,697
Financial Ratios					
Capital structure at year end					
Long-term debt %	34	36	37	39	42
Equity %	66	64	63	61	58
Weighted average borrowing rate at year end %	7.58	7.72	8.76	8.76	8.76
Return on equity %	8.56	-0.74	8.88	9.21	10.01
Interest coverage	6.01	0.78	3.64	7.23	5.55

Directors and staff at December 31, 1998

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Dan Daigle
	Jean Gleason
	Aileen Horler
	Pat Irvin
	Rob McWilliam
	Sally Wright

Officers

President and CEO	Rob McWilliam
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Darlene Morgan

Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Rob McWilliam

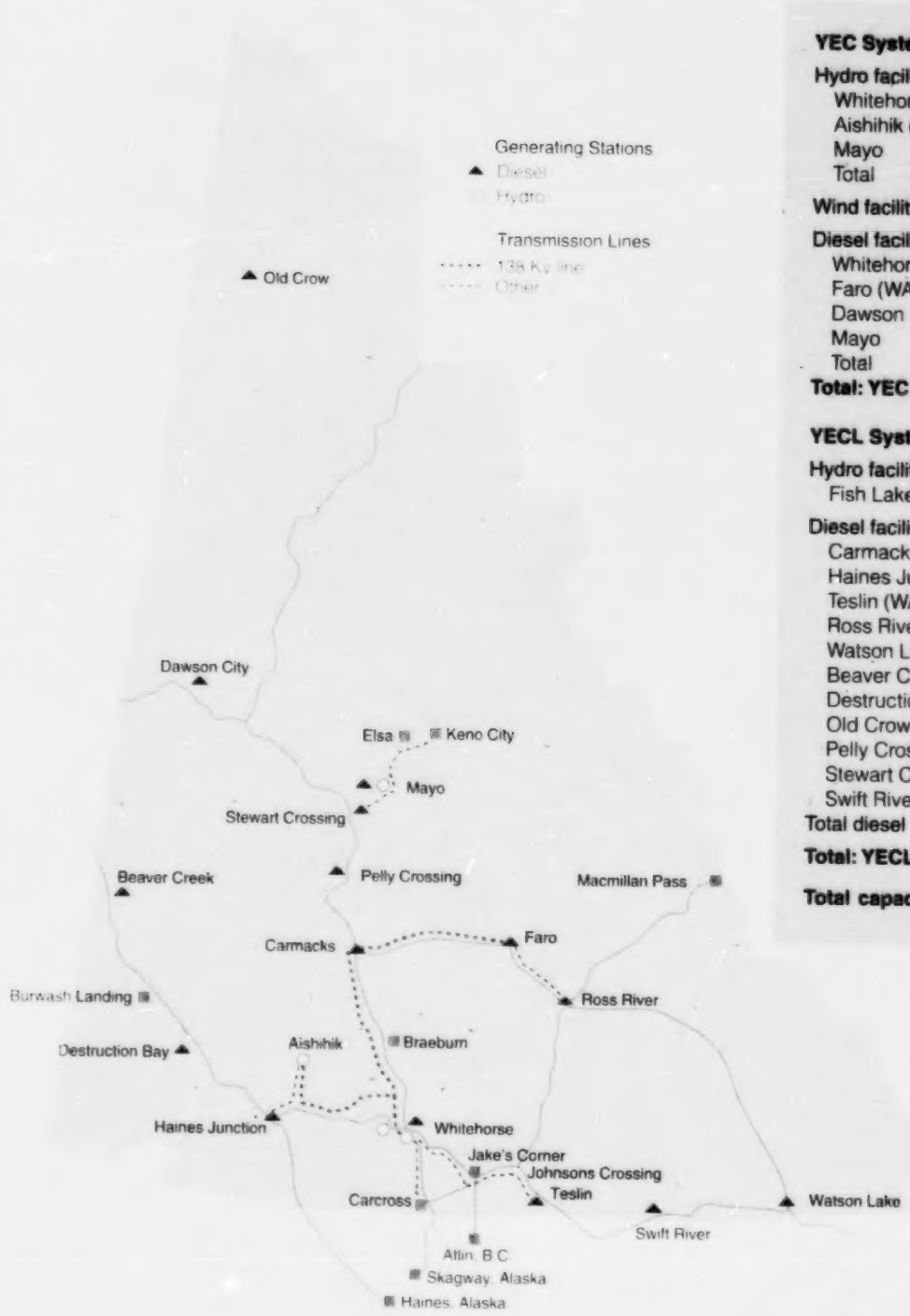
Auditors

Auditor General of Canada

Yukon Development Corporation

2 Miles Canyon Road
P. O. Box 2703 (D-1)
Whitehorse, Yukon Y1A 2C6
Phone (867) 393-5336
Fax (867) 393-5323

Electric power facilities in the Yukon



YEC System (in MW)	
Hydro facilities	
Whitehorse (WAF)	40.0
Aishihik (WAF)	30.0
Mayo	5.0
Total	75.0
Wind facilities	**0.2**
Diesel facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	13.6
Dawson	5.0
Mayo	1.6
Total	44.6
Total: YEC systems	**120.4**
YECL System (in MW)	
Hydro facilities	
Fish Lake (WAF)	1.3
Diesel facilities	
Carmacks	1.5
Haines Junction (WAF)	0.1
Teslin (WAF)	1.5
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total diesel	**12.9**
Total: YECL system	**14.2**
Total capacity: Yukon	**134.6**

CORPORATE PROFILE

Established in 1987, the **Yukon Energy Corporation** is an electrical public utility incorporated, franchised and regulated by the *Business Corporation Act*, the *Public Utilities Act*, and the *Yukon Waters Act*.

Governed by a Board of Directors appointed by the shareholder, Yukon Energy is a wholly owned subsidiary of the Yukon Development Corporation (YDC).

The corporation is the primary producer and transmitter of electrical energy in the territory. It distributes electrical power to wholesale and industrial customers, and to retail customers in Dawson City, Faro, Mayo, Champagne and other rural areas throughout the territory.

Yukon Energy's generating capacity is approximately 120 megawatts (MW) of electricity, 75 MW of which are provided by hydro facilities located at Whitehorse Rapids, Mayo and Aishihik Lake. The remaining 45 MW are provided by diesel generators in Whitehorse, Faro, Mayo and Dawson City. A small wind turbine located near Whitehorse generates about 0.2 MW of electrical energy. Annual electricity generation ranges between 260 and 460 gigawatt-hours (GWh), depending on consumer demand.

At year-end, there were approximately 1,600 electricity consumers served directly by Yukon Energy, primarily located in and around Dawson City, Mayo and Faro. The corporation also indirectly serves about 11,400 consumers in Yukon communities that receive power from the Whitehorse-Aishihik-Faro grid through The Yukon Electrical Company Limited (YECL), including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River, and Teslin.

THE YEAR IN REVIEW

HIGHLIGHTS

1. Restoration of Whitehorse Rapids facilities

The work to restore the turbines and plant facilities at the Whitehorse Rapids site was completed in 1998. Opening ceremonies were held on November 6, a year after the October 1997 fire. After the cutting of the ribbon by Board chair, Ray Wells, Yukon Energy staff conducted tours of the facility for the media and many others attending the event.

Construction of the new corporate offices was on schedule. The new offices and system control centre have been designed to energy efficient specifications by a local architectural firm, Maurer Kobayashi Architects Ltd.

2. Implementation of direct management

Yukon Energy successfully completed its first year of operations under direct management. Fully staffed, the company concluded a new three-year agreement with the Yukon Utility Workers Association and entered into cooperative relationships with the NWT Power Corporation, West Kootenay Power and BC Hydro.

3. Loss of major industrial customer

The effect of the second closure and long-term shutdown of the Anvil Range Mine in Faro has been significant, with the mine going into receivership leaving an unpaid-bill and a loss of about 40 per cent of Yukon Energy's revenues. Proposals for ratepayer protection measures, including advance payments and seasonal rates for industrial customers, were not addressed by the Yukon Utilities Board before the mine went into receivership. Electrical rates for 1997 were finalized and new interim rates were established for 1998. A detailed proposal for a rate adjustment and stabilization fund was not approved by the Yukon Utilities Board.

4. Infrastructure initiatives

Yukon Energy completed its advanced planning for the proposed Mayo-Dawson transmission line project.

5. Company streamlining

The Yukon Energy Corporation Board of Directors conducted an organizational and management evaluation. A board advisor was appointed and the company restructured to reduce levels of management and increase strength in infrastructure planning, asset management and business development.

THE YEAR IN REVIEW

6. Other activities

Yukon Energy carried out several activities dealing with policy, business planning, infrastructure and operations. These included:

- developing and implementing an occupational health and safety policy;
- relocating the Old Crow wind monitoring station to a new test location;
- developing a fall energy awareness initiative, including an energy fair implemented with business, community, environmental and government partners;
- completing the Aishihik environmental impact statement;
- adopting transmission and distribution operating procedures in common with YECL;
- converting a diesel generator into a mobile unit for emergency services and locating it in Dawson City for use anywhere in the Yukon;
- planning and coordinating Y2K activities; and
- implementing a bill averaging program for commercial customers in cooperation with the Tourism Industry Association of the Yukon and YECL.

YUKON UTILITIES BOARD ORDERS

The Yukon Utilities Board issued the following orders, pursuant to the *Public Utilities Act*, which affect the business and affairs of Yukon Energy:

- Board Order 1998-1: Staying Yukon Energy's application to require Anvil Range Mine to prepay monthly bills; suspending payment of Rider G rebates to Territorial and Federal Government General Service Customers; and amending Electric Service Regulations relating to reconnection or restoration of service (January 29, 1998);
- Board Order 1998-2: Creating Rate Schedule 34 enabling provision of power for Faro mine environmental requirements when Rate Schedule 39 is not in effect with revenue retained for benefit of customers as directed by the Board (April 17, 1998);
- Board Order 1998-3: Denying request for interim refundable rate riders in an application for final 1997 rates and interim 1998 rates and establishing arrangements for a public hearing (May 22, 1998);

THE YEAR IN REVIEW

- Board Order 1998-4: Addressing motions by the Utilities Consumers' Group and making YECL 1997 rates final without a public hearing (June 30, 1998);
- Board Order 1998-5: Approving final 1997 rates and interim 1998 rates, rejecting a proposed rate adjustment and stabilization fund and applying full relief from the DCF, and dealing with other matters addressed in the company application (July 30, 1998);
- Board Order 1998-6: Extending implementation date of Board Order 1998-5 to September 1, 1998 (August 12, 1998);
- Board Order 1998-7: Awarding 1997 hearing costs (October 22, 1998);
- Board Order 1998-8: Awarding 1998 hearing costs (October 22, 1998);
- Board Order 1998-9: Addressing the Utilities Consumers' Group application for review and variance of Board Order 1996-7 and request for investigation with respect to the Low Water Reserve Fund (December 1, 1998);
- Board Order 1998-10: Addressing Utilities Consumer Group 1998 water management complaint (December 23, 1998).

GOVERNMENT DIRECTION

The Government of the Yukon issued one directive, pursuant to the *Public Utilities Act*, which affects the business and affairs of Yukon Energy:

- Order-in-Council 1998/32 pursuant to section 17(1) of the *Public Utilities Act* to amend 1995/90 and revoke 1997/203 directing the Yukon Utilities Board to provide for a fair return on equity in the rates of Yukon Energy Corporation and The Yukon Electrical Company Limited.

YUKON ENERGY'S YEAR 2000 READINESS

Yukon Energy plans to keep the lights on now, during and after the millennium transition. With more than five employees and consultants working to address Year 2000 issues across Yukon, the Year 2000 project is our top business continuity priority.

The Year 2000 concern, commonly referred to as Y2K or the 'millennium bug', is about the potential for computer programs to interpret the century incorrectly. The problem arose years ago when programmers chose to use only the last two digits of the year (for example, dropping the '19' in 1998) to maximize computer storage space and minimize costs. As a result, a computer may misinterpret the '00' in 2000 to mean 1900. This could affect computer applications that are date dependent.

Fortunately for Yukon Energy, compared to larger utilities our electric system has fewer complex and date-dependent computer technologies, making our system less vulnerable to the Year 2000 rollover.

In fact, of the approximately 550 electrical devices and equipment in our system, the majority are analog or electromechanical, with no Year 2000 sensitivities. About 150 devices may be affected by the Year 2000 rollover; of those, only about 25 were high-impact devices that required attention. The high-impact devices were fixed in June 1999, and medium- and low-impact devices — those that do not have a direct impact on public safety, the environment or our ability to generate and deliver electricity — will be fixed by October 1999. These include our financial and billing systems.

SHARING THE POWER GRID

Yukon Energy's system is not interconnected with electrical transmission systems in other jurisdictions. Power is supplied to The Yukon Electrical Company Limited (YECL) for distribution to various Yukon communities. Yukon Energy generates and distributes power on the Mayo and Dawson City isolated grids.

To date, Yukon Energy and YECL have not found any serious date-related defects that have the potential to stop us from generating, transmitting and distributing power, and we do not expect to have our service disrupted by Year 2000-related issues within our system.

JUST IN CASE

While we do not anticipate any Year 2000-related outages, another critical part of the Year 2000 project involves producing detailed contingency plans 'just in case' we need them. The contingency plans outline what resources we will need, and

where, so that we can continue to provide electrical service during unforeseen events. Contingency planning is already a major part of the way we do business at Yukon Energy, because of the threats to the power supply from storms, floods, earthquakes, equipment failures or other emergencies.

MIDNIGHT, DECEMBER 31, 1999

During the Year 2000 rollover, our key facilities — including those that are normally automated — will be fully staffed. We will also have a communications centre in place to provide information and deal with inquiries.

With these and other measures in place, our customers can be assured that Yukon Energy is taking the necessary steps to ensure a continued supply of electricity. For more information about Yukon Energy's Year 2000 project, visit our web site at www.yec.yk.ca or call us at 1-867-393-5300 (toll-free within the Yukon at 1-800-676-2843).

SUMMARY OF UTILITY OPERATIONS

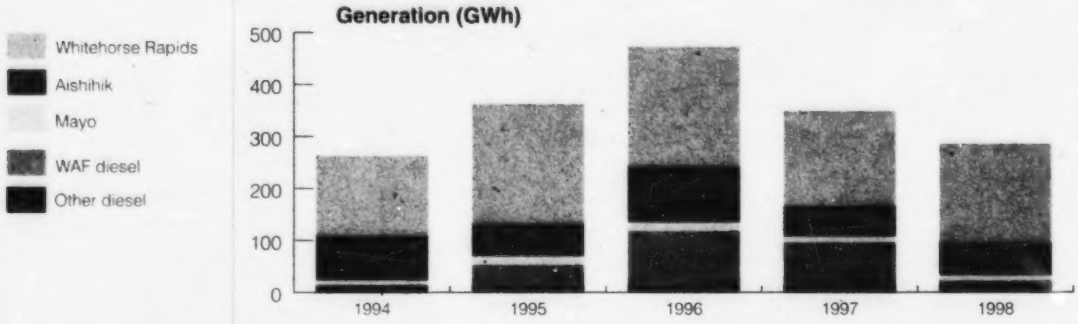
	1998	1997	1996	1995	1994
Generating capacity (in MW)					
Hydro	75	75	75	75	75
Diesel	45	45	45	45	45
Total	120	120	120	120	120
Peak demand (in MW)					
WAF System	54	67	79	79	61
Mayo	3	3	3	4	3
Dawson	3	3	2	2	2
Total	60	73	84	85	66
Generation (in GWh)					
Hydro					
Whitehorse Rapids	191	183	229	230	153
Aishihik	63	59	110	64	87
Mayo	11	11	16	16	9
Total hydro	265	253	355	310	249
Diesel					
WAF system	7	82	105	40	1
Other	15	14	13	13	13
Total diesel	22	96	118	53	14
Total generation	287	349	473	363	263
% Hydro	92.3	72.5	75.1	85.4	94.7
% Diesel	7.7	27.5	24.9	14.6	5.3
Electric sales (in $000)					
Residential	1,519	1,555	1,648	1,389	1,163
General service	2,045	1,978	1,795	2,092	1,882
Industrial	1,332	7,542	14,207	480	132
Wholesale	15,232	15,432	16,020	18,135	18,503
Other	70	63	58	79	75
	20,128	26,570	33,728	22,175	21,755
Electric sales (in MWh)					
Residential	11,403	12,796	14,112	11,701	9,951
General service	12,981	13,561	13,607	12,571	11,653
Industrial	20,759	80,818	179,101	94,568	9,554
Wholesale	222,958	220,508	232,086	216,624	210,883
Other	223	233	229	227	219
	268,324	314,355	439,135	335,691	242,260
Average sales (¢ per KWh)					
Residential	13.3	12.2	11.7	11.9	11.7
General service	15.6	14.6	13.2	16.6	16.2
Wholesale	6.8	7.0	6.9	8.4	8.8

Note: The summary of utility operations has been prepared on a calendar year basis to coincide with the test periods used for rate-making purposes and the fiscal year of the Yukon Energy Corporation.

OPERATIONS AND FINANCIAL REVIEW

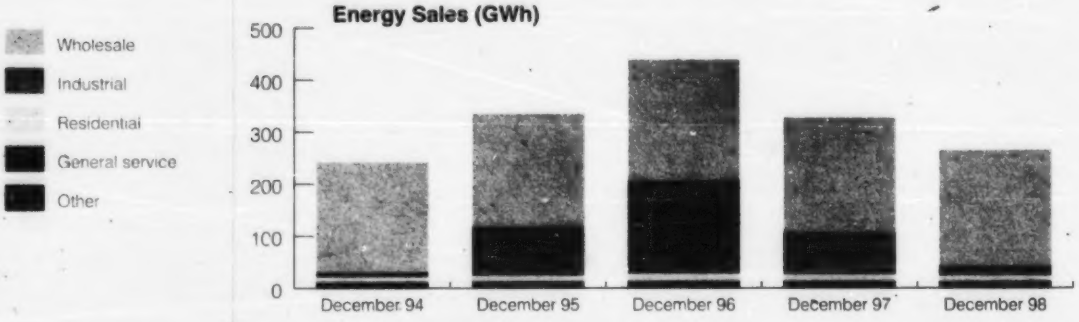
Generation

Production levels in 1998 decreased to 286 GWh from 349 GWh in 1997. Hydro-electric generation accounted for 92 per cent of total generation in 1998, compared to 72 per cent in 1997. The decrease in total generation was primarily due to the shutdown of Anvil Range Mine.



Energy sales

Energy sales for the year ended December 31, 1998 decreased approximately 23 per cent to 268 GWh, compared to 330 GWh for the year ended December 31, 1997. The shutdown of the Faro mine accounted for the major portion of the increase, with sales to industrial customers declining approximately 74 per cent to 18 GWh in 1998 (1997 – 81 GWh) and sales to residential and general service customers declining 15.2 per cent.



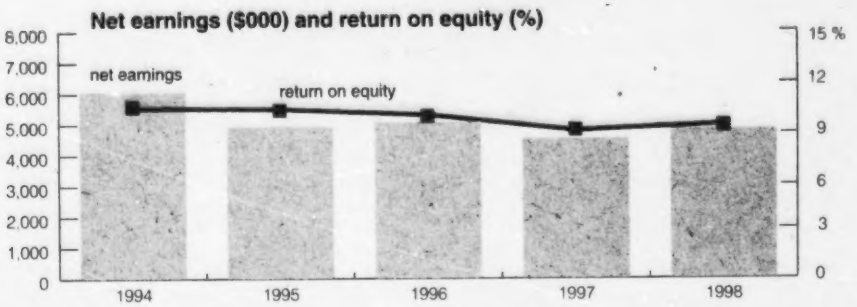
Sales revenue for the year ended December 31, 1998 was $24.5 million (1997 – $27.7 million).

OPERATIONS AND FINANCIAL REVIEW

Financial review

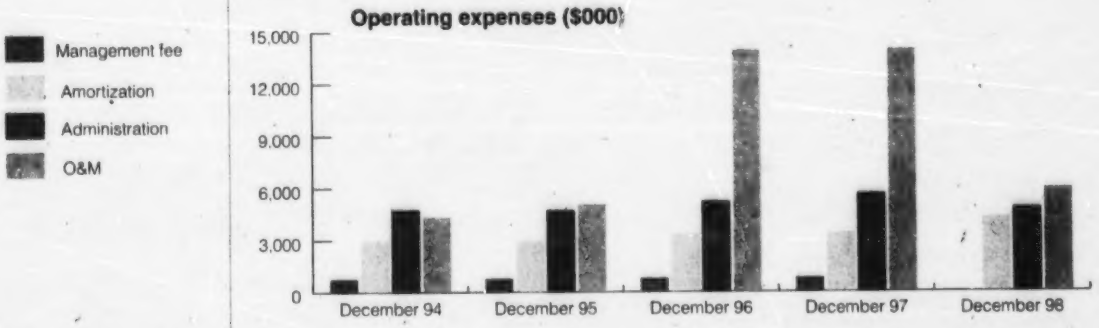
(thousands of dollars unless otherwise stated)

	1998	1997
Net income	$ 4,855	$ 4,545
Sale of power	$ 24,534	$ 27,656
Capital and deferred expenditures	$ 7,277	$ 3,142
Capital assets	$ 111,015	$ 108,223
Long-term debt	$ 73,199	$ 69,528
Return on equity (%)	9.87	9.28
Debt to equity	60/40	59/41



Operating expenses

Operating expenses totalled $15.0 million in 1998 (1997 – $23.8 million). Administration accounted for 28 per cent (1997 – 14 per cent) of the total, amortization accounted for 32 per cent (1997 – 24 per cent), management fees accounted for 0 per cent (1997 – 3.0 per cent) and operations and maintenance accounted for 40 per cent (1997 – 59 per cent).



OPERATIONS AND FINANCIAL REVIEW

Administration expenses totalled $4.3 million in 1998 (compared to $4.1 million in 1997, including a $0.9 million management fee paid to Canadian Utilities Limited under the management agreement that terminated December 31, 1997).

Amortization of capital assets totalled $4.1 million in 1998. Amortization of deferred charges totalled $0.6 million in 1998 and $1.6 million in 1997.

Operations and maintenance expenses decreased significantly, to $5.9 million in 1998 from $14.0 million in 1997, due to the shutdown of the Anvil Range Mine.

Other expenses (income)

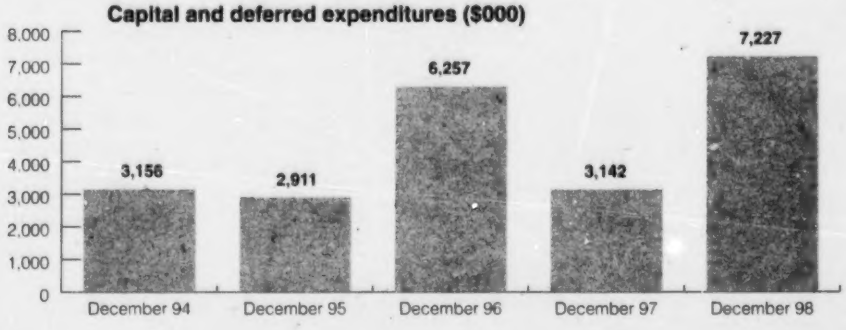
Finance charges include the corporation's interest expense offset by interest and finance income and the allowance for funds used during construction (AFUDC). The finance charges decreased from $5.8 million in 1997 to $4.9 in 1998.

Electrical rate relief payments

Power subsidy programs totalled $0.4 million in 1998 compared to $1.5 million in 1997. The payments are being made pursuant to the Yukon Government's Rate Relief program first implemented in November 1993. The program was extended to March 31, 1998.

Capital and deferred expenditures

The corporation's principal requirement for funds is for capital and deferred expenditures on its utility assets. Capital and deferred expenditures totalled $7.3 million for 1998, up $4.2 million from expenditures of $3.1 million in 1997.



OPERATIONS AND FINANCIAL REVIEW

During 1998 capital spending totalled approximately $4.5 million (1997 - $1.9 million), of which $171,000 (1997 - $125,000) was for transmission projects, $285,000 (1997 - $430,000) was for distribution projects, $599,000 (1997 - $1,167,000) was for generation projects and $3,432,000 (1997 - $198,000) was for general property and equipment.

Deferred expenditures totalled approximately $753,000 (1997 - $1,171,000). Major costs included $411,000 for feasibility studies and $342,000 on regulatory costs.

Capital program

The capital work program for 1998 included new and upgraded customer connections, continued transmission line and Mayo distribution upgrading, replacement of the 138 kV Pelly River crossing at Faro, vehicle and computer equipment purchases, generation plant upgrades, and relicensing of the Aishihik hydro plant.

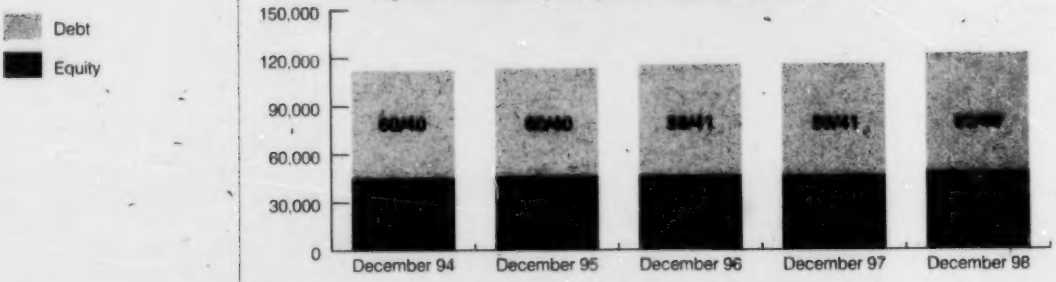
Significant effort was also put into the reconstruction of the Whitehorse hydro plant after the fire; the plant was fully operational and nearly completed at year end. Construction also started on a new corporate office building, which was about 50 per cent complete at year end.

Capital structure

At December 31, 1998, long-term debt totalled $73.2 million, compared to $69.5 million at December 31, 1997.

The Corporation has an operating demand overdraft facility bearing interest at bank prime rate, allowing it to borrow up to $10 million.

Capital structure ($000) and debt/equity ratio



At December 31, 1998 the Corporation's weighted cost of debt financing was 8.5 per cent and the debt equity ratio was 60:40, compared to 8.2 per cent and 59:41 respectively as at December 31, 1997.

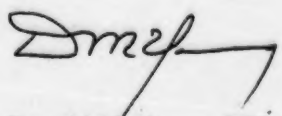
The Honourable Trevor Harding, MLA
Minister of Economic Development
Responsible for the Yukon Development Corporation

I have audited the balance sheet of the Yukon Energy Corporation as at December 31, 1998 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In 1998, the Yukon Utilities Board approved the recovery of a 1997 revenue shortfall of $2,139,000 through interim riders effective August 1, 1998, as described in note 17. Management has accounted for this decision by restating the 1997 financial statements. In my opinion, under generally accepted accounting principles, the impact of the Board's decision should be accounted for in the 1998 financial statements. If this had been accounted for in 1998, the 1997 retained earnings and accounts receivable would be decreased by $2,139,000 and the 1998 net income and accounts receivable would increase by $2,139,000.

In my opinion, except for effects of the failure to properly record the impact of the Board's decision as described in the previous paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa
June 30, 1999

Balance sheet

As at December 31, 1998 (in thousands of dollars)

	1998	1997
Assets		(restated)
Current assets		
Cash (note 3)	$ —	$ 188
Accounts receivable (note 4)	9,494	3,234
Inventories	705	782
Prepaid expenses	281	248
Due from Yukon Development Corporation (note 5)	147	817
	10,627	5,269
Long-term receivables		
Other long-term receivables (note 6)	5,952	4,741
Mortgages receivable	63	—
	6,015	4,741
Diesel Contingency Fund	2,236	2,835
Capital assets (note 8)	111,015	111,186
Deferred charges (note 9)	3,629	4,234
	$ 133,522	$ 128,265
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	$ 3,505	—
Accounts payable	1,673	3,053
Current portion of long-term debt (note 10)	585	694
	5,763	3,747
Deferred revenue (note 11)	222	296
Reserve for uninsured losses (note 12)	(621)	(58)
Reserve for future removal and site restoration costs (note 13)	3,532	2,963
Diesel Contingency Fund (note 7)	2,236	2,835
Long-term debt (note 10)	73,199	69,528
Shareholder's Equity:		
Share capital: Unlimited number of a single class of shares with no par value: 3,900 shares	39,000	39,000
Retained earnings	10,191	9,954
	49,191	48,954
	$ 133,522	$ 128,265

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair

Director

Statement of income and retained earnings
For the year ended December 31, 1998 (thousands of dollars)

	1998	1997 (restated)
Revenue		
Sale of power	$ 24,534	$ 27,656
Water level reimbursement from parent	74	4,033
Other (note 14)	(15)	298
	24,593	31,987
Operating expenses		
Administration	4,288	3,335
Amortization of capital assets	4,156	4,080
Amortization of deferred charges	660	1,576
Management fee (note 15)	—	807
Operations and maintenance	5,943	13,976
	15,047	23,774
Income from operations	9,546	8,213
Other expenses (income)		
Finance charges, net (note 16)	4,641	5,757
Provision for contingency reserves	50	50
Funding of transition costs by parent (note 5)	(70)	(880)
Transition costs	70	880
	4,691	5,807
Net income	4,855	2,406
Retained earnings at beginning of year, as previously reported	9,954	8,029
Adjustment of prior year's income (note 17)	—	2,139
Retained earnings at beginning of year, as restated	$ 9,954	$ 10,168
Power rate relief and subsidy payments	(402)	(1,510)
Dividend	(4,216)	(1,110)
Retained earnings, end of year	$ 10,191	$ 9,954

The accompanying notes are an integral part of the financial statements.

Statement of changes in financial position
For the year ended December 31, 1998 (thousands of dollars)

	1998	1997 (restated)
Cash was provided by (used for)		
Operations		
Net income	$ 4,855	$ 2,406
Add (deduct): Items not affecting cash		
Amortization	4,816	5,656
	9,671	8,062
Change in non-cash components of working capital	(6,925)	1,404
	2,746	9,466
Investing activities		
Additions to capital assets	(4,487)	(1,920)
Proceeds on disposal of capital assets	—	(23)
Contributions for plant extension	1,070	171
Decrease in deferred charges	(55)	(1,222)
Increase in reserve for uninsured losses	50	50
	(3,422)	(2,944)
Financing activities		
Additions to long-term debt	4,216	1,110
Repayments of long-term debt	(654)	(1,431)
Decrease (increase) in long-term receivables	(1,887)	(3,614)
Increase (decrease) in long-term liabilities	(74)	296
	1,601	(3,639)
Other activities		
Power rate relief and subsidy payments	(402)	(1,510)
Dividend	(4,216)	(1,110)
	(4,618)	(2,620)
Increase (decrease) in cash and short-term investments	(3,693)	263
Cash and short-term investments at beginning of year	188	(75)
Cash and short-term investments at end of year	$ (3,505)	$ 188

The accompanying notes are an integral part of the financial statements.

1. Nature of operations

Yukon Energy Corporation (the "Corporation") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a Yukon Crown corporation.The Corporation generates, transmits, distributes and sells electrical energy in the Yukon.

2. Significant accounting policies

Financial statement presentation

The financial statements of the Corporation have been prepared by management and conform to accounting principles generally accepted in Canada. A description of the significant accounting policies follows.

Regulation

The Corporation is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board pursuant to the *Public Utilities Act* (Yukon).

Water Regulation

The Yukon Territory Water Board decides if and for how long the Corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred in securing a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate Regulation

The regulatory process begins when the Corporation makes a General Rate Application for their proposed electricity rate changes over the next one or two years. The Yukon Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and Orders-In-Council that specify how the interests of the customer and the utilities are to be balanced. The YUB goes through a two-stage decision process. The first stage is to approve the total costs that the utility will incur by making electricity available to its customers over the immediate future. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- The costs to the utility to run its operations and maintain its equipment (personnel and materials costs);
- The cost associated with the amortization of all capital equipment;

- Return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

Having approved the total revenue that the utilities are allowed to collect over the immediate future, the next stage is for the YUB to approve how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost of service study which allocates utility costs to the various customer classes on the basis of what it costs the utility to provide service to each customer class. The determination of rates is also affected by Orders-In-Council, which give specific direction to the Board.

Normally, the Corporation would apply for rates in advance of the applicable years. A hearing would take place and rates would be approved as final as a result of this hearing. Interim hearings and interim rates have been used to deal with unforeseen circumstances, such as the loss of a major customer.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as followed:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	13 to 14 years
Office and general equipment	5 to 15 years

The corporation includes in the cost of additions, capital development studies and an allowance for funds used during construction at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply customers' specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions.

Inventories

Inventories are recorded at the lower of cost and replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand side management (DSM) expenditures incurred related to administration expenses and information programs are expensed as incurred and costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are deferred and amortized to earnings on a straight-line basis over five years commencing with the first rate application period following the decision to abandon the project. Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing licence plus the expected term of the renewed licence.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

Other deferred charges, which have arisen from decisions of the Yukon Utilities Board, are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

The Corporation is authorized by Order In Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel in accordance with procedures determined by the Yukon Utilities Board. Significant fluctuations in diesel fuel costs due to unusual circumstances or events, which result in a diesel fuel price adjustment, are deferred and recovered or refunded over a specific future period through revised rates charged to customers.

Reserves for uninsured losses

The Corporation maintains a reserve for uninsured losses. Appropriations to, or withdrawals from, the reserves are recorded as a charge or credit to earnings.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Power rate relief and subsidy payments

Power rate relief and subsidy payments are paid as directed by the Yukon government and charged to retained earnings as required by regulation.

Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable and other long-term receivables. Actual results could differ from these estimates.

Pension plan

The Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees.

3. Cash and bank indebtedness

	1998	1997
Bank (overdraft)	$ (1,907)	$ 186
Operating line of credit	(1,600)	—
Short-term investments	2	2
	$ (3,505)	$ 188

The Corporation has, if needed, an operating demand overdraft facility with its banker that allows the Corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

4. Accounts receivable

	1998	1997
Fire insurance claim (note 8)	$ 2,562	$ 601
Rate increase entitlement	2,495	812
Wholesales	1,712	—
Retail energy sales	1,473	574
Other	1,252	1,247
	$ 9,494	$ 3,234

The 1997 accounts receivable balance has increased by $812,000 due to a prior period adjustment as a result of Board Order 1998-5. The Board has recognized that the Corporation

had a 1997 revenue shortfall of $812,000 required to achieve the approved return of 9.45%. The Board ordered that the shortfall be collected from the Corporation's and The Yukon Electrical Company Limited's customers through a 5.8% rider effective August 1, 1999 (see note 18).

5. Related party transactions

Entity	Relationship	Transaction/Balance	Recorded As	1998	1997
The Yukon Electrical Company Limited	Manager	Management fees	Management fee	$ —	$ 807
		Power sales	Sale of power	15,232	15,432
		Accounts payable	Accounts payable	—	1,144
		Accounts receivable	Accounts receivable	1,712	—
Yukon Development Corporation	Parent	Interest payments	Finance charges	2,635	2,556
		Receivable for costs	Due from YDC	147	817
		Transition cost payments	Other income	70	880
		Transition capital payment	Contributions	1,000	—
		Aishihik water supply payment	Water level reimbursement from parent	—	4,329

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These balance are payable on demand and have arisen from the sales of products and services referred to above.

6. Long-term receivables

	1998	1997
Anvil Range Mine bad debt	$ 3,177	$ 3,414
Anvil Range Mine cost of service shortfall	2,775	1,327
	$ 5,952	$ 4,741

The Corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January, 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. The Corporation's management expects to recover the receivable through future customer rates. The Corporation requested, in the April 22, 1998 rate application, that the receivable balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5.

The Corporation has appealed this decision to the Court of Appeal. Until the Court of Appeal decides whether or not the Corporation is entitled to collect the receivable from its customers, the amount has been recorded as a long-term receivable. Based on past experience, it is management's position that the Court of Appeal will allow the Corporation to collect this amount. The date for the appeal is set for October 1999. The Anvil Range Mine bad debt decreased by $237,000 as interest that was previously recorded as a part of the bad debt was not requested by the Corporation to be collected in the 1997 and 1998 Rate Application filed with the Yukon Utilities Board on April 22, 1998.

There is a measurement of uncertainty regarding the collection of this receivable since the collection through future customer rates requires the approval of the Court of Appeal. The amount that may subsequently be approved for collection might vary from $0 to $3,177,182.

In accordance with Board Order 1998-5 the Corporation has recorded the cost of service shortfalls as a long-term receivable of $1,326,700 for 1997 and $3,298,300 for 1998 related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of the Corporation. The Board also ordered that the amount to be included in the Corporation's rate base be reduced by $925,000 per year commencing in 1998. The long-term portion of $2,775,000 represents three years at $925,000 per year.

7. Diesel contingency fund

The Diesel Contingency Fund was established by the Yukon Utilities Board in the 1996/1997 General Rate Application decision. The Fund is administered by the Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability. The Fund's assets are from the following sources:

- the prior low water reserve of $500,000;
- $1,496,000 collected from the Curragh Resources Inc. receivership pursuant to a judgement granted by the Yukon Court of Appeal; and
- revenue, net of direct expenses, received from the Anvil Range Mining Corporation for their Faro site in the amount of $2,045,000 which had been deferred based on a decision by the Yukon Utilities Board.

	1998	1997
Opening balance	$ 2,398	$ 2,828
Interest	159	73
Hydro availability buildup (drawdown)	904	(155)
Forest fire impact buildup (drawdown)	58	—
Yukon Utilities Board Orders 1998-5 and 1997-7	(1,283)	(348)
Closing balance	$ 2,236	$ 2,398

The corporation burned additional diesel during the month of July 1998, due to a forest fire. The Diesel Contingency Fund paid for the extra cost, which was subsequently charged to the contingency reserve for uninsured losses.

8. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	$ 112,520	$ 24,872	$ 87,648	$ 89,517
Transmission	18,122	4,605	13,517	13,851
Distribution	8,470	2,355	6,115	6,150
Buildings and other equipment	5,134	1,543	3,591	3,361
Transportation	646	21	625	—
Land	103	—	103	97
Construction-in-progress	2,355	—	2,355	109
	147,350	33,396	113,954	113,085
Less: Contributions for plant extensions	3,292	353	2,939	1,899
	$ 144,058	$ 33,043	$ 111,015	$ 111,186

Construction-in-progress includes an estimate of $1,691,982 for the cost of betterments due to the reconstruction of the Whitehorse Rapids Generation Plant and Head Office Building.

Capital assets located at Whitehorse Rapids Generating Facility were damaged or destroyed by a fire on October 30, 1997. The estimated net book value of the assets damaged or destroyed by the fire are:

Buildings	$ 750
Hydro-electric plant	700
SCADA automated control systems	500
Computers/software	50
	$ 2,000

The Corporation intends to use the insurance proceeds to purchase the same or similar assets to those that were damaged or destroyed by the fire and expects that the insurance proceeds will be sufficient to fully cover the costs of replacing these assets. The eventual gain to be realized on insurance proceeds received over the net book value of the assets destroyed by the fire will be recorded at the end of the project in 1999, at which time the Corporation intends to seek approval from the Yukon Utilities Board to defer the gain.

The following table summarizes fire related expenditures to date which will be included in the total added to rate base as betterments in 1999.

	1998 Actual
Total expenditures	$ 11,103
Less:	
Insurance receivables (note 4)	2,562
Insurance proceeds	5,850
Contributions from Yukon Development Corporation	1,000
Betterments	$ 1,691

9. Deferred charges

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
Planning and study costs	$ 4,514	$ 1,083	$ 3,431	$ 3,217
Generating equipment overhauls	887	595	292	389
Downsizing	166	140	26	51
Regulatory expenses	1,578	1,577	1	98
Deferred fuel price adjustment	(121)	—	(121)	479
	$ 7,024	$ 3,395	$ 3,629	$ 4,234

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

10. Long-term debt

The Corporation's long-term debt is summarized as follows:

	1998	1997
Government of Canada		
$40,000 flexible term note bearing interest at 7% payable in annual installments of $1,000 with the balance due January 1, 2028	$ 30,016	$ 30,415
Yukon Development Corporation		
Unsecured advances bearing interest at 9.79% due one year after demand	18,358	18,358
Unsecured advances bearing interest at 8.94% due one year after demand	1,654	1,653
Unsecured advances bearing interest at 10.24% due one year after demand	1,627	1,627
Unsecured advances bearing interest at 9.17% due one year after demand	1,696	1,696
Unsecured advances bearing interest at 8.78% due one year after demand	3,285	3,285
Unsecured advances bearing interest at 9.12% due one year after demand	1,110	1,110
Unsecured advances bearing interest at 6.68% due one year after demand	4,216	—
Toronto Dominion Bank of Canada		
$12,400 term note bearing interest at 7.94% payable in blended monthly ihstallments of $102 with the balance of $67 due October 31, 2016. The note is guaranteed by the Yukon government	11,822	12,078
	73,784	70,222
Less: Current portion	585	694
	$ 73,199	$ 69,528

Government of Canada notes

The proceeds of the Government of Canada term and flexible term notes were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission (NCPC). The notes are secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

The aggregate maturities of the Government of Canada note are estimated as follows:

1999	$ 270
2000	301
2001	400
2002	437
2003	474
Thereafter	28,134
	$ 30,016

Fair value

Fair value of $81,887,000 (1997- $82,988,000) for the above debt was estimated using discounted cash-flow analysis based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

11. Deferred revenue

The maintenance reserve was set up to offset the future cost of maintenance related to compensation received by the Corporation under the Aishihik Order in Council 1997/12 passed by the Yukon government. The reserve was established in 1997, and is being taken into income on a straight-line basis over five years.

12. Reserve for uninsured losses

	1998	1997
Opening Balance	$ (58)	$ 92
Buildup	50	50
Asset replacement	(33)	—
Line Failures	(35)	—
Forest Fires	(178)	—
Whitehorse Rapids Generation Plant insurance deductible	—	(200)
Whitehorse Rapids Generation interruption	(367)	—
Closing Balance	$ (621)	$ (58)

The Corporation's target balance for the reserve for uninsured losses is based on the Corporation's past experience. The Corporation will be applying to the Yukon Utilities Board for approval to build up the reserve.

13. Reserve for future removal and site restoration costs

	1998	1997
Hydro-electric and diesel plants	$ 2,493	$ 2,092
Transmission	988	829
Distribution	531	445
Buildings and other equipment	(480)	(403)
	$ 3,532	$ 2,963

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

14. Other revenue

Interest that was previously recorded as revenue on the Anvil Range bad debt in 1997 has been reversed in 1998 as it was not requested by the Corporation to be collected in the 1997 and 1998 Rate Application filed with the Yukon Utilities Board on April 22, 1998 (see note 6).

15. Direct Management

Commencing January 1, 1998, the Corporation provided direct management of its assets through its own corporate employees. Prior to 1998, the Corporation had an agreement with Canadian Utilities Limited and The Yukon Electrical Company Limited to manage the Corporation's assets for an annual fee.

16. Finance charges, net

	1998	1997
Interest on long-term debt	$ 4,445	$ 5,715
Other interest	150	104
Interest income	82	(51)
Allowance for funds used during construction	(36)	(11)
	$ 4,641	$ 5,757

17. Prior period adjustments

The 1997 financial statements have been restated to record the impact of Yukon Utilities Board Order 1998-5. The restatement increased accounts receivable and retained earnings by $2,139,000. Details of Yukon Utilities Board Order 1998-5 are provided in note 18.

18. Rate Applications

On April 22, 1998 the Corporation filed a revised 1997 and 1998 Rate Application requesting a reduction in the Corporation's rate of return on equity in 1997, 1998 and 1999, the collection of the Anvil Range Mine receivable and the cost of service shortfalls in 1997 and 1998 caused by the shutdown of the mine. The Corporation also requested Board orders to finalize 1997 Rates and approve Interim 1998 Rates.

On July 30, 1998 the Corporation received the Yukon Utilities Board Order 1998-5 with respect to this application. The Board ordered that the rate of return on equity be reduced from 10.75% to 9.45% for 1997 and 9.138% for 1998. The Board disallowed the recovery of the Anvil Range Mine receivable of $3,177,200 and stated that the Board "was of the opinion" that the Corporation should absorb the debt. This decision is being appealed through the Courts. The Board ordered that the Corporation's rates for 1997 are confirmed as final.

The Board approved the recovery of 1997 revenue shortfall of $812,000 through a 5.8% rider, effective August 1, 1998 until fully collected. The Board also acknowledged additional revenue shortfall of $1,326,700 for 1997 and $4,777,400 for 1998. The Board approved recovery of these shortfalls, excluding amounts related to the disallowed Anvil Range Mine receivable, through an interim refundable rider of 9.48% effective for billings issued on or after August 1, 1998. The rider was adjusted to 15.28% after the 5.8% rider ended for the 1997 $812,000 shortfall, and such rider is to be subject to further adjustment as directed by the Board in future proceedings. In subsequent Board Order 1998-6 the Board approved an extension of the implementation date for the riders from August 1, 1998 to September 1, 1998.

19. Pension costs

The defined benefit pension applies to one employee who was hired in December, 1997. As at January 1, 1998, 38 additional employees have transferred directly from The Yukon Electrical Company Limited, in connection with commencement of direct management, and joined the plan. Employees that transfer to the Corporation and join the plan are entitled to transfer prior years of service. As part of the arrangement, The Yukon Electrical Company Limited is to transfer to the Corporation the appropriate value of each employee's pension entitlements. The actual pension funds will be transferred once the actuarial calculations are finalized and approved by the Corporation's actuary. Corporation contributions made in the period since have been based on actuarial estimates, intended to cover all current service obligations.

20. Commitment note

The Corporation is in contract negotiations for the purchase and implementation of a new financial information system at an estimated cost of $ 400,000.

21. Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in error when information using year 2000 dates is processed. Similar problems may also arise as some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to a significant system failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

22. Environmental liabilities

The Corporation is not aware of any liabilities for restoration of the environment on its land, although the potential does exist. In management's opinion, there is low probability that a significant liability could result in the future.

23. Comparative figures

Certain 1997 figures, which are presented for comparative purposes, have been restated to agree with the current year's presentation.

Directors and staff at December 31, 1998

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Dan Daigle
	Jean Gleason
	Aileen Horler
	Pat Irvin
	Rob McWilliam
	Sally Wright

Officers

President and CEO	Rob McWilliam
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Darlene Morgan

Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Rob McWilliam

Human Resources Committee

Chair	Ray Wells
Members	Dan Daigle
	Rob McWilliam
	Sally Wright

Auditors

Auditor General of Canada

Yukon Energy Corporation

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